

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 SOE-02 NSC-05 AID-05 CEA-01 CIAE-00

COME-00 EB-08 EA-12 FRB-01 INR-07 IO-14 NEA-10

NSAE-00 USIA-15 OPIC-06 SP-02 TRSE-00 LAB-04

SIL-01 AGRE-00 OMB-01 SS-15 OES-07 /129 W

-----021674 161322Z /53

R 161303Z JAN 78

FM AMEMBASSY BRUSSELS

TO SECSTATE WASHDC 4274

INFO ALL EC CAPITALS

DOE WASHDC

UNCLAS SECTION 01 OF 02 BRUSSELS 00860

USEEC

PARIS ALSO FOR OECD

E.O. 11652: N/A

TAGS: ENRG, EEC

SUBJECT: COMMISSIONER BRUNNER REPLY TO LETTERS FROM
FIVE EUROPEAN OIL COMPANIES

REF: BRUSSELS 16156

1. SUMMARY: A CAREFULLY WORDED RESPONSE BY EC
COMMISSIONER BRUNNER TO THE FIVE EUROPEAN OIL COMPANIES
STRESSES FORTHCOMING COMMISSION STUDIES AND POSSIBLE
ACTIONS "WITHIN ITS PREROGATIVES" REGARDING RESOLUTION
OF THE SERIOUS PROBLEMS FACING THE EUROPEAN OIL REFINING
INDUSTRY. HE ALSO REVIEWS COMMISSION ACTION TO OBTAIN A
BETTER UNDERSTANDING OF THE ESTABLISHMENT OF PETROLEUM
PRODUCT PRICES, INCLUDING IMPLEMENTATION OF DETAILED
PRICE REPORTING BEGINNING IN 1977 AND A ROTTERDAM SPOT
MARKET "TRIAL RUN" IN 1978, BUT EXPRESSES CAUTION
REGARDING THE COMPANIES' ADVOCATION OF PUBLISHED PRICE
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SCHEDULES. NOTABLE OMISSIONS IN BRUNNER'S RESPONSE
INCLUDE ANY INDICATION OF FAVORING EUROPEAN-BASED
COMPANIES, REFERENCE TO POSSIBLE "DUMPING" OF PETROLEUM
PRODUCTS IN EUROPE, AND ANY REACTION TO THE CONCERN
EXPRESSED BY THE COMPANIES OVER THE POSSIBLE NEGATIVE
EFFECT OF NATIONAL ENERGY MEASURES. HIS LETTER APPEARS
INTENDED TO FURTHER THE CONTINUED COOPERATION OF THE

COMPANIES AND TO GAIN THEIR SUPPORT OF THE COMMISSION'S PROPOSALS REGARDING COMMON MEASURES TO RESOLVE REFINERY AND PRICE PROBLEMS. END SUMMARY.

2. AT THE END OF DECEMBER, EC COMMISSIONER FOR ENERGY BRUNNER SENT IDENTICAL REPLIES TO THE LETTERS FROM FIVE EUROPEAN OIL COMPANIES NOTED IN REFTTEL. THE TEXT WAS MADE PUBLIC IN A COMMISSION PRESS RELEASE ON JANUARY 11 AND IS BEING POUCHED TO EUR/RPE AND EB/FSE. A RELATIVELY COMPLETE INFORMAL TRANSLATION OF BRUNNER'S REPLY BY THIS MISSION FROM THE FRENCH TEXT FOLLOWS:

A. BRUNNER EXPRESSES HIS APPRECIATION FOR THE COMPANY'S LETTER OF OCTOBER 25 WHICH HE SAYS CONTRIBUTES TO THE DELIBERATIONS OF THE COMMISSION AND TO THE PURSUIT OF A DIALOGUE TO WHICH THE COMMISSION "ATTACHES THE GREATEST INTEREST".

B. THE COMMISSION BELIEVES "THE COMMUNITY CAN ONLY ATTAIN ITS PETROLEUM OBJECTIVES, I.E., STABLE AND SECURE SUPPLY, IF IT HAS A HEALTHY INDUSTRY CAPABLE OF REALIZING THE NECESSARY INVESTMENTS. THIS OBJECTIVE MUST BE PURSUED WHILE RESPECTING THE CONDITIONS FOR FAIR COMPETITION".

C. BRUNNER THEN RECALLS THE COMMISSION'S PROPOSAL OF UNCLASSIFIED

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MARCH 1977 REGARDING PROBLEMS RELATED TO "EXCESS REFINERY CAPACITY, ADAPTION OF REFINERY STRUCTURE TO THE NEEDS OF THE MARKET, AND IMPORTS OF PETROLEUM PRODUCTS FROM THIRD COUNTRIES". THIS PROPOSAL SOUGHT SOLUTIONS AT THE COMMUNITY LEVEL AND "THE CONVERGENCE OF THE INDISPENSABLE AND BALANCED EFFORTS OF THE OIL INDUSTRY WITH THOSE OF THE PUBLIC AUTHORITIES". HE NOTES THAT THE COMPANIES AGREED WITH THIS FUNDAMENTAL ORIENTATION AND ALSO INSISTED UPON ACTION AT THE COMMUNITY LEVEL.

D. AFTER NOTING THAT UNFORTUNATELY THE EC ENERGY COUNCILS OF OCTOBER 25 AND DECEMBER 13 WERE NOT ABLE TO AGREE IN REGARD TO THIS PROPOSAL, BRUNNER SAYS THAT THE COMMISSION INTENDS TO "EXERCISE FULLY ITS RESPONSIBILITIES WITHIN THE SCOPE OF ITS PREROGATIVES. THIS IS PARTICULARLY URGENT SINCE THE MARKET SITUATION REMAINS EXTREMELY WORRISOME DESPITE A REDUCTION, ALBEIT INSUFFICIENT, OF EXCESS REFINERY CAPACITY".

E. THE OVERALL STUDY OF THE REFINERY SITUATION TO BE SUBMITTED TO THE ENERGY COMMITTEE ON JANUARY 1978 WILL COVER REFINERY CAPACITY AS OF JANUARY 1, 1978, ANTICI-

PATED RATES OF UTILIZATION DURING THE YEAR, AND IDENTIFICATION OF FACILITIES "TO BE PERMANENTLY OR TEMPORARILY PUT OUT OF OPERATION OR TRANSFORMED FOR OTHER PURPOSES". THE STUDY WILL ALSO COVER PROBLEMS OF "THE CREATION OF NEW REFINERY AND CONVERSION UNITS" AND OF PETROLEUM PRODUCT IMPORTS. "THIS ANALYSIS WILL BE BASED UPON INFORMATION OBTAINED FROM THE MEMBER STATES UNDER EXISTING REGULATIONS AND FROM CONSULTATIONS WITH INTERESTED COMPANIES."

F. THE COMMISSION WILL ALSO "INDICATE THE MEANS THAT IT WILL USE AND THE SPECIFIC MEASURES IT WILL PROPOSE, IF NECESSARY, FOR COUNCIL APPROVAL". NEW INITIATIVES ARE

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COME-00 EB-08 EA-12 FRB-01 INR-07 IO-14 NEA-10
NSAE-00 USIA-15 OPIC-06 SP-02 TRSE-00 LAB-04
SIL-01 AGRE-00 OMB-01 SS-15 OES-07 /129 W
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NEEDED FOR FUNDAMENTAL REFORMS AND TO REDUCE THE EFFECTS OF CURRENT DEVELOPMENTS.

G. THE COMMISSION WILL PURSUE THE MATTER AGAIN WITH THE COUNCIL WHICH IS SCHEDULED TO CONSIDER REFINERY PROBLEMS DURING ITS NEXT SESSION ENVISAGED FOR MARCH.

H. REGARDING THE PROBLEM OF PRICES FOR PETROLEUM PRODUCTS, BRUNNER NOTES THAT THE COMMUNITY SYSTEM FOR PRICE REPORTING HAS BEEN IN EFFECT FOR A YEAR. THE COMMISSION IS EXAMINING THE RESULTS AND WILL SOON TRANS-

MIT ITS PRELIMINARY CONCLUSIONS TO THE COUNCIL. "IN ADDITION, COMMISSION SERVICES IN COLLABORATION WITH MEMBER STATE EXPERTS AND THE ASSISTANCE OF THE INDUSTRY, ARE STUDYING OTHER METHODS CAPABLE OF SHEDDING LIGHT ON HOW MARKET PRICES ARE ESTABLISHED, OR, IN OTHER WORDS, OF INCREASING THE TRANSPARENCY OF PRICES IN CONFORMITY WITH THE COUNCIL DECISION ADOPTED IN FEBRUARY 1975."

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I. BRUNNER NOTES THAT THE COMMISSION IS "CONTINUING ITS EXAMINATION OF THE ROTTERDAM MARKET WHICH, ALTHOUGH RELATIVELY MARGINAL, EXERTS CONSIDERABLE INFLUENCE ON THE EUROPEAN MARKET". A "TRIAL RUN" WILL BE MADE BEGINNING IN FEBRUARY 1978 (AND LAST SIX MONTHS BASED ON VOLUNTARY REPORTING OF SPOT TRANSACTIONS). BRUNNER ADDS THAT THE COMMISSION IS ALSO EXAMINING THE PROPOSAL FROM THE FIVE COMPANIES "REGARDING THE PUBLICATION OF PRICE SCHEDULES, WHICH WOULD ALSO COVER LONG-TERM CONTRACTS, TAKING INTO CONSIDERATION THE SPECIAL CONDITIONS PREVAILING ON THE EUROPEAN MARKET". BRUNNER STATES THAT "ACTIVE PARTICIPATION BY ALL CONCERNED PARTIES CONSTITUTES AN IMPORTANT ELEMENT FOR THE SUCCESS OF ALL THIS WORK, IN WHICH THE MEMORANDUM OF THE FIVE COMPANIES OF JULY 1976 HAD INDICATED AN INTEREST, BUT WHOSE COMPLEXITY MAKES IT NECESSARY THAT IT NOT LEAD TO HASTY SOLUTIONS WHICH TURN OUT TO BE INAPPROPRIATE".

J. IN CLOSING, BRUNNER EXPRESSES HIS APPRECIATION FOR THE OFFER BY THE FIVE COMPANIES TO COOPERATE ACTIVELY. WHILE ACCEPTING THE OFFER, HE NOTES THAT HE "BELIEVES IT WOULD BE DESIRABLE TO DEVELOP DURING THE NEXT FEW MONTHS SYSTEMATIC CONSULTATIONS BETWEEN THE COMMISSION AND ALL OF THE INTERESTED COMPANIES".

3. COMMENT: BRUNNER'S EMPHASIS ON THE COMMISSION'S PROPOSALS REGARDING RESOLUTION OF THE CRITICAL PETROLEUM REFINERY PROBLEMS AND EFFORTS TO OBTAIN GREATER PRICE TRANSPARENCY APPEARS INTENDED TO DRAW PUBLIC ATTENTION TO THE COMMISSION'S PROGRAM AND TO OBTAIN INDUSTRY SUPPORT AND COOPERATION IN IMPLEMENTING THESE MEASURES. AS IN EARLIER RESPONSES TO THE FIVE COMPANIES,

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BRUNNER'S LETTER CAREFULLY AVOIDS ANY IMPLICATION THAT THE COMMISSION WOULD BE PREPARED TO GIVE FAVORED TREAT-

MENT TO EUROPEAN COMPANIES OPERATING PRIMARILY IN
EUROPE. TO THE CONTRARY, IT STRESSES THE COMMISSION'S
INTENTIONS TO CONTINUE CONSULTATIONS WITH ALL INTERESTED
OIL COMPANIES AND THE NEED TO MAINTAIN FREE COMPETITION.
THE LETTER ALSO AVOIDS ANY REACTION TO THE ALLUSIONS IN
THE LETTER FROM THE FIVE COMPANIES REGARDING THIRD
COUNTRY "DUMPING" OF PETROLEUM PRODUCTS AND THE NEED FOR
MEASURES TO SAFEGUARD THE EUROPEAN OIL INDUSTRY. WHILE
STRESSING THE IMPORTANCE OF AN ENERGY POLICY AT THE
COMMUNITY LEVEL, THE BRUNNER LETTER ALSO DOES NOT RISE
TO THE IMPLICATIONS IN THE LETTER FROM THE COMPANIES THAT
IN THE ABSENCE OF A COMMON POLICY, MEMBER STATES WILL BE
REQUIRED TO IMPOSE CONSTRAINTS AT THE NATIONAL LEVEL
WHICH WOULD BE HARMFUL TO THE EUROPEAN PETROLEUM ECONOMY
AS A WHOLE. HINTON

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